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The Shariah Governance in Palestinian Islamic Banks: A Professional Development Perspective

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ABSTRACT

Over the past two decades, the Islamic banking sector in Palestine has undergone significant institutional and regulatory transformation, positioning itself as a model of integration between national legislation and international standards. This research examines Shariah governance within Palestinian Islamic banks from a professional development perspective, focusing on organisational structure, challenges to independence and competence, and mechanisms for capacity building. The study adopts a descriptive-analytical methodology, relying on primary legal documents, regulatory frameworks, and secondary scholarly sources. Findings indicate that while Palestine has established a robust legislative foundation through Law No. (9) Of 2010 and alignment with AAOIFI standards, critical challenges persist regarding the operational independence of Shariah boards and the professional competence of their members. The Central Shariah Supervisory Authority (CSSA), which intended to unify fatwas and ensure consistency, remains inactive due to the absence of implementing regulations. Furthermore, most board members possess strong academic credentials in Islamic jurisprudence but lack practical expertise in Islamic finance, limiting their strategic role. The research concludes that the sustainable development of Shariah governance requires institutional reforms, mandatory continuous professional development, and the activation of central oversight mechanisms. These measures are essential to transform Shariah boards from mere compliance units into strategic intellectual bodies capable of guiding ethical and innovative financial solutions.

1. Introduction

The emergence of Islamic banking in Palestine represents a unique confluence of religious commitment, economic necessity, and institutional innovation. Since the establishment of the first Islamic financial institution in the early 2000s, the sector has grown steadily, driven by public demand

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for Shariah-compliant financial services and supportive regulatory initiatives [1]. The enactment of the Banking Law No. (9) of 2010 marked a pivotal moment, providing a formal legal framework for the operation and supervision of Islamic banks [2]. This law mandates the formation of Shariah supervisory boards (SSBs) in all Islamic banks, affirming their binding authority over all financial transactions [3].

Despite this advanced regulatory framework, several gaps still exist in the practical implementation of Shariah governance. A key issue is the limited professional development of SSB members, whose expertise often comes from classical Islamic jurisprudence rather than applied Islamic finance [4]. This imbalance weakens their ability to participate effectively in strategic decision-making and product innovation. Moreover, the independence of these boards is threatened by their appointment processes, which are typically controlled by the bank's board of directors, potentially leading to conflicts of interest [5]. Although international standards such as those from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB) offer thorough guidance, their full adoption into local practice remains incomplete [6].

The significance of this research lies in its focus on the professional aspect of Shariah governance—a part often ignored in Favor of structural or compliance analyses. By examining the competencies, training, and institutional support available to SSB members in Palestine, this study fills a critical gap in the literature. The goal is to assess the current state of professional development in Palestinian Islamic banks and provide practical recommendations for enhancing the effectiveness and strategic significance of Shariah governance. This analysis is not just academic; it is crucial for the long-term sustainability and credibility of the Islamic finance sector in Palestine.

2. The Regulatory Framework of Islamic Banking in Palestine

A comprehensive legal and regulatory framework supports the development of Islamic banking in Palestine. The foundation of this system is the Banking Law No. (9) of 2010, which officially recognizes Islamic banks as separate financial entities and establishes the legal basis for their operations [2]. This law grants the Palestinian Monetary Authority (PMA), now called the Palestine Central Bank (PCB), the authority to license, supervise, and regulate Islamic financial institutions [7]. The law also requires the creation of a Shariah Supervisory Board (SSB) in every Islamic bank, with members being qualified scholars in Islamic jurisprudence and their rulings binding on the institution [3].In addition to national legislation, Palestinian Islamic banks are required to comply with international standards set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Established in 1991 and headquartered in Bahrain, AAOIFI has developed over 100 standards covering Shariah, accounting, auditing, and governance [8]. These standards are widely adopted across the global Islamic finance industry, with over 90% of Islamic banks referencing them in their operations [9]. The PMA has formally endorsed AAOIFI standards, integrating them into its supervisory framework to ensure consistency and adherence to international best practices [10].

Complementing AAOIFI's role, the Islamic Financial Services Board (IFSB) provides prudential and governance standards tailored to the unique characteristics of Islamic financial institutions [11]. The IFSB's standards, particularly IFSB-31 on adequate supervision of Shariah governance, offer guidance on board independence, transparency, and accountability [12]. Although Palestine is not a full member of the IFSB, its regulatory authorities closely monitor and often adopt its recommendations to strengthen the resilience of the financial system [13].

The Securities Commission (SC) also plays a vital role by regulating non-bank Islamic financial institutions, such as takaful (Islamic insurance) and leasing companies [14]. This dual regulatory structure—where the PCB oversees banks and the SC supervises other financial entities—ensures comprehensive coverage of the Islamic finance sector. Together, these institutions form a multi-layered regulatory ecosystem designed to promote financial stability, consumer protection, and Shariah compliance. However, as subsequent sections will demonstrate, a strong legal framework does not automatically lead to effective governance in practice.

3. Organisational Structure of Shariah Boards and Their Supervisory Role

The organisational structure of Shariah governance in Palestinian Islamic banks is outlined by Law No. (9) of 2010, which mandates that each Islamic bank establish a Shariah Supervisory Board (SSB) before beginning operations [3]. According to Article 24, the SSB must include at least three members who are experts in Islamic jurisprudence and Islamic financial standards, and whose rulings are legally binding on the bank [15]. This provision highlights the critical role of the SSB in ensuring adherence to Shariah principles. Beyond the internal SSB, the law establishes a Central Shariah Supervisory Authority (CSSA) at the national level [16]. Comprising five to nine members, the CSSA is intended to be an independent body responsible for unifying fatwas, issuing binding rulings on financial products, and serving as a consultative body for the PMA and SC [17]. For instance, the CSSA has issued guidelines on unsecured credit cards and sukuk (Islamic bonds), aiming to harmonise practices across institutions [18]. However, despite its statutory mandate, the CSSA has not been fully operationalised due to the absence of implementing regulations and executive decisions [19].

At the institutional level, banks must appoint an internal Shariah compliance officer or unit, as outlined in the Best Practice Guide on Corporate Governance for Banks [20]. This officer reports directly to the SSB and is responsible for overseeing daily transactions, ensuring compliance with SSB decisions, and training staff on Shariah principles [21]. Some institutions have also created dedicated Shariah compliance departments, reflecting a growing recognition of the need for systematic internal oversight [22].

The ideal structure, as recommended by the IFSB, includes a "Shariah compliance unit" that operates independently and reports directly to the audit committee or board of directors [12]. This model improves accountability and reduces the risk of management interference. However, in practice, many compliance officers in Palestinian banks face challenges related to resource constraints and limited authority, which can hinder their effectiveness [23]. Therefore, while the structural framework for Shariah governance is well-defined, its operational effectiveness depends on activating central bodies like the CSSA and empowering internal compliance units.

4. Challenges to Independence and Professional Competence

Despite having a sophisticated regulatory framework, Palestinian Islamic banks face significant challenges in maintaining the independence and professionalism of their Shariah boards. Independence is compromised by the appointment process, which is usually initiated by the bank's board of directors and approved by the general assembly [24]. This creates a potential conflict of interest, as SSB members may feel obligated to the management they are supposed to oversee [25]. Although the law provides procedures for removing a board member, requiring written approval from the PMA, this safeguard does not fully remove perceived or actual dependence [15].

Furthermore, the absence of an active Central Shariah Supervisory Authority (CSSA) worsens inconsistencies in fatwa issuance across banks [19]. Without a central body to review and standardise rulings, individual SSBs function in relative isolation, resulting in differing interpretations of similar financial products. This fragmentation damages consumer confidence and makes regulatory oversight more difficult [26].

Equally important is the issue of professional competence. While most SSB members have advanced degrees in Islamic jurisprudence, many lack practical experience in banking, finance, or risk management [4]. This gap restricts their ability to evaluate the economic impacts of financial products beyond their technical Shariah compliance. Consequently, boards often prioritize "structural compliance" (whether a transaction is Shariah-compliant) over "outcome compliance" (whether it meets broader Islamic goals such as justice and social welfare) [27].

This narrow focus hampers innovation and strategic planning. For example, developing new financial instruments such as green sukuk or fintech-based Islamic finance requires board members with interdisciplinary expertise [28]. Yet, current recruitment practices prioritize religious scholarship over financial skills. As a result, there is an urgent need to redefine the qualifications for SSB membership to include proven experience in Islamic finance, thereby improving the board’s ability to contribute effectively to institutional strategy and product development.

5. Professional Development and Capacity Building Initiatives

Addressing the competence gap requires ongoing commitment to professional development and capacity building. Internationally, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has played a leading role by offering professional certification programmes such as the Certified Islamic Professional Accountant (CIPA), Certified Shariah Advisor (CSA), and Certified Shariah Expert (CSE) [29]. These certifications combine theoretical knowledge with practical experience requirements, ensuring that holders are not only knowledgeable but also capable of applying standards in real-world settings [30].

AAOIFI also conducts specialized workshops and annual conferences, such as the Global Shariah Scholars Forum, which bring together hundreds of professionals to discuss emerging issues and share best practices [31]. These events serve as vital platforms for continuous learning and networking. Similarly, the IFSB has issued updated governance principles, including IFSB-31, which emphasizes the importance of effective supervision and capacity development for Shariah boards [12].

In Palestine, however, such structured professional development programs are limited. While some banks sponsor their staff to attend international training, there is no national framework for mandatory continuing professional development (CPD) for SSB members. The IFSB and AAOIFI recommend that certified professionals complete a minimum of 60 hours of CPD annually, with at least 10 hours dedicated to ethics [32]. Adopting such a requirement in Palestine would institutionalize lifelong learning and ensure that board members remain current with global developments.

Furthermore, banks should develop internal training programs that include SSB members in strategic discussions, exposing them to financial modelling, risk assessment, and market trends. This approach would transform SSBs from passive reviewers into active contributors to institutional policy. By aligning local practices with international standards, Palestinian Islamic banks can improve the professional standing of Shariah governance and increase its strategic importance.

6. Comparative Analysis of International Models and Implications for Palestine

A comparative analysis of international models shows both strengths and weaknesses in the Palestinian approach to Shariah governance. One of Palestine’s main advantages is its dual-level governance structure, which includes both internal SSBs and a national-level CSSA [16]. This model follows IFSB recommendations for centralized oversight and is more advanced than systems in countries where supervision is fully decentralized [12]. However, the inactivity of the CSSA makes this structural advantage ineffective, revealing a gap between policy design and implementation.

In contrast, Malaysia has built a highly centralized system through Bank Negara Malaysia, which has direct authority over all Shariah rulings and appoints members of the Shariah Advisory Council [33]. This model guarantees consistency but might restrict institutional independence. Palestine's hybrid system offers a middle ground, but only if the CSSA is given clear mandates and operational resources.

Regarding independence, international standards strongly support separating SSB appointments from executive management [12]. In the United States, for instance, the Federal Reserve mandates that Shariah board members be chosen through independent nomination committees [34]. In Palestine, the current director-led appointment process conflicts with this principle and diminishes perceived independence [24].

On professional competence, Gulf Cooperation Council (GCC) countries have started to require practical experience in Islamic finance as a condition for SSB membership [35]. This shift recognizes that Shariah compliance is not merely a theological exercise but a complex financial and managerial function. Palestine must also follow by revising its qualification criteria to emphasize both scholarly depth and professional expertise.

Therefore, although Palestine's regulatory framework is theoretically strong, its practical effectiveness falls short of leading jurisdictions. The way forward involves not new legislation but enforcing existing laws and adopting international best practices in appointment procedures and professional standards.

7. Future Prospects: Pathways for Enhancement and Emerging Challenges

The future of Shariah governance in Palestinian Islamic banks depends on shifting from just formal compliance to real professional excellence. Three key strategies are crucial for this change. First, the Central Shariah Supervisory Authority (CSSA) needs to be activated through the issuance of implementing regulations by the PMA. Once it is operational, the CSSA should take responsibility for reviewing and approving new financial products, issuing standardized fatwas, and resolving disputes between banks and their SSBs [17]. This centralization will reduce fragmentation and boost public trust in the sector. Second, a national framework for continuing professional development (CPD) must be established. Drawing on AAOIFI's model, SSB members should be required to complete a minimum of 60 hours of CPD annually, including training in financial risk, digital banking, and ethical finance [30]. Certification programs such as CSA and CSE should be incentivized or made mandatory for board membership. Third, SSBs need to shift from being compliance enforcers to becoming strategic advisors. This involves including them in board-level discussions on product development, risk management, and corporate strategy. As the IFSB states, the SSB should serve as the "intellectual mind" of the bank, contributing to its long-term vision and social impact [12].

Emerging challenges such as fintech, artificial intelligence, and sustainable finance require SSBs to have interdisciplinary knowledge. Without proactive investment in professional development, Palestinian banks risk falling behind global trends. By embracing reform, Palestine can establish its Islamic finance sector as a regional leader in ethical and innovative banking.

8. Conclusions

This research shows that the Shariah governance framework in Palestinian Islamic banks is built on a strong legal basis, especially through Law No. (9) of 2010 and alignment with AAOIFI standards. However, its effectiveness is weakened by ongoing issues related to the independence and professionalism of Shariah boards. The inactivity of the Central Shariah Supervisory Authority (CSSA) leads to inconsistent fatwas and poor coordination, while the process of appointing board members affects their operational independence.

More critically, the professional profile of SSB members remains skewed toward traditional scholarship, with inadequate focus on practical financial expertise. This restricts their ability to participate in strategic decision-making and innovation. To address these issues, the study recommends the immediate activation of the CSSA, the creation of a mandatory CPD framework, and the redefinition of SSB membership criteria to include professional experience in Islamic finance.

These reforms are not just technical adjustments; they are crucial steps toward transforming Shariah governance into a dynamic, strategic function. By doing so, Palestinian Islamic banks can boost their credibility, foster innovation, and make meaningful contributions to the region's socioeconomic development. The future of Islamic finance in Palestine depends not only on following religious principles but also on professionalizing those responsible for interpreting them.

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